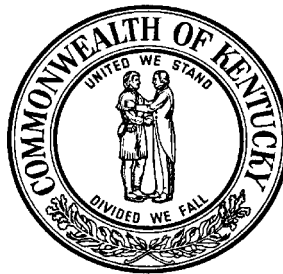


**REPORT OF THE AUDIT OF THE
KENTUCKY TRANSPORTATION CABINET
CAPITAL ASSETS**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
James C. Codell, III, Secretary
Kentucky Transportation Cabinet

The enclosed report, prepared by Potter & Company, LLP, Certified Public Accountants, presents the Transportation Cabinet's capital assets for the year ended June 30, 2002. The schedule of capital assets is the responsibility of the Cabinet's management.

We engaged Potter & Company, LLP, to perform the audit of the schedule of capital assets. We worked closely with the firm during our report review process.

Respectfully submitted,

A handwritten signature in cursive script, reading "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**TRANSPORTATION CABINET OF THE
COMMONWEALTH OF KENTUCKY
FRANKFORT, KENTUCKY**

**INDEPENDENT AUDITOR'S REPORT
ON CAPITAL ASSETS**

June 30, 2002

TRANSPORTATION CABINET OF THE COMMONWEALTH OF KENTUCKY
FRANKFORT, KENTUCKY

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POTTER & COMPANY, LLP

Certified Public Accountants • Business Advisors

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INDEPENDENT AUDITOR'S REPORT

Mr. James C. Codell, III, Secretary
Transportation Cabinet of the
Commonwealth of Kentucky and
Mr. Edward B. Hatchett, Jr., Auditor of Public Accounts
Commonwealth of Kentucky
Frankfort, Kentucky

We have audited the accompanying schedule of capital assets of the Transportation Cabinet of the Commonwealth of Kentucky as of and for the year ended June 30, 2002. This schedule is the responsibility of the Cabinet's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of capital assets is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of capital assets. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of capital assets referred to above presents fairly, in all material respects, the capital assets of the Transportation Cabinet of the Commonwealth of Kentucky as of June 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Cabinet has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis, for State and Local Governments*," as of June 30, 2002.

Potter & Company, LLP

POTTER & COMPANY, LLP
October 25, 2002

TRANSPORTATION CABINET OF THE COMMONWEALTH OF KENTUCKY
SCHEDULE OF CAPITAL ASSETS
June 30, 2002
(Expressed in Thousands)

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,793	\$	\$ (4)	\$ 9,789
Infrastructure	12,687,654	1,326,796		14,014,450
Construction in progress	<u>2,887,661</u>	<u>600,169</u>	<u>(1,330,612)</u>	<u>2,157,218</u>
Total capital assets, not being depreciated	<u>15,585,108</u>	<u>1,926,965</u>	<u>(1,330,616)</u>	<u>16,181,457</u>
Capital assets, being depreciated:				
Buildings	67,389	2,839	(79)	70,149
Machinery and equipment	<u>123,375</u>	<u>8,773</u>	<u>(1,213)</u>	<u>130,935</u>
Total capital assets, being depreciated	<u>190,764</u>	<u>11,612</u>	<u>(1,292)</u>	<u>201,084</u>
Less accumulated depreciation for:				
Buildings	(38,313)	(1,899)	75	(40,137)
Machinery and equipment	<u>(71,521)</u>	<u>(9,199)</u>	<u>368</u>	<u>(80,352)</u>
Total accumulated depreciation	<u>(109,834)</u>	<u>(11,098)</u>	<u>443</u>	<u>(120,489)</u>
Total capital assets, being depreciated, net	<u>80,930</u>	<u>514</u>	<u>(849)</u>	<u>80,595</u>
Governmental activities capital assets, net	<u>\$ 15,666,038</u>	<u>\$ 1,927,479</u>	<u>\$ (1,331,465)</u>	<u>\$ 16,262,052</u>
Business-type activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 83,803	\$ 11,288	\$ (7,261)	\$ 87,830
Total capital assets, being depreciated	<u>83,803</u>	<u>11,288</u>	<u>(7,261)</u>	<u>87,830</u>
Less accumulated depreciation for:				
Machinery and equipment	(49,066)	(10,258)	5,896	(53,428)
Total accumulated depreciation	<u>(49,066)</u>	<u>(10,258)</u>	<u>5,896</u>	<u>(53,428)</u>
Total capital assets, being depreciated, net	<u>34,737</u>	<u>1,030</u>	<u>(1,365)</u>	<u>34,402</u>
Business-type activities capital assets, net	<u>\$ 34,737</u>	<u>\$ 1,030</u>	<u>\$ (1,365)</u>	<u>\$ 34,402</u>

TRANSPORTATION CABINET OF THE COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF CAPITAL ASSETS
June 30, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Capital Assets:

Capital assets and certain improvements are recorded in the schedule at historical cost or, if donated, at the estimated fair market value at the date of acquisition. In some instances, capital asset historical costs were not available; therefore, the costs of these assets at the dates of acquisitions have been estimated.

Depreciation and Useful Lives:

Most capital assets are depreciated over their useful lives, using the straight-line depreciation method. Estimated useful lives generally were assigned as follows:

<u>Asset</u>	<u>Years</u>
Fleet vehicles	5
Equipment	3-13
Buildings	15-45

Modified Approach for Infrastructure:

Infrastructure, such as roads and bridges, is capitalized for the first time for the fiscal year ended June 30, 2002. The Cabinet has elected to use the "modified approach" to account for certain infrastructure assets, as provided in GASB Statement No. 34. Under this process, the Cabinet does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the Cabinet to:

- 1.) Commit to maintaining and preserving affected assets at or above a condition level established by the Cabinet.
- 2.) Maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained.
- 3.) Make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

NOTE 2 - DEPRECIATION EXPENSE

Depreciation expense was charged to governmental activities and business type-activities as follows:

Governmental activities	\$ 11,098,000
Business-type activities	<u>10,258,000</u>
	\$ <u>21,356,000</u>

TRANSPORTATION CABINET OF THE COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF CAPITAL ASSETS
June 30, 2002

NOTE 3 - CONSTRUCTION COMMITMENTS

The Cabinet has active construction projects as of June 30, 2002. The projects include street construction in widening of existing streets and bridges. The Cabinet's commitments with contractors as of June 30, 2002 totaled approximately \$829,143,000.

